[Global Corruption Report, 2004] International Business Attitudes toward Corruption

20 International business attitudes toward corruption

John Bray[1]

International companies have an important role to play in the struggle against corruption. In the worst case, by paying bribes too easily, they help perpetuate the problem. In the best case, they can serve as positive agents for change by implementing high standards within their own operations, and by using their influence to lobby for reform. But what do leading business people really think about corruption? In August and September 2002, Control Risks Group commissioned a survey of business attitudes in six jurisdictions. The results give a revealing indicator of current business views.[2]

On Control Risks' behalf, IRB Ltd conducted a total of 250 telephone interviews with 50 companies each in Britain, Germany, the Netherlands and the United States, and 25 each in Hong Kong and Singapore. All respondents were senior decision-makers at or near board level, and all the companies operated internationally. The respondents represented eight different commercial sectors: banking and finance; public works/construction; arms and defence; oil, gas and mining; telecoms; power generation; retail; and pharmaceuticals. Control Risks commissioned a similar survey with a smaller sample in 1999.[3]

The respondents made clear that graft can have a major impact on commercial success (see Table 20.1). More than half of the Hong Kong and Singaporean companies believed they had lost business in the previous year because a competitor had paid a bribe. The figure was lower for companies from the United States and Europe but, even so, a quarter of British companies thought they had lost business to corrupt competitors in the last five years.

Table 20.1: Percentage of companies that lost business because a competitor paid a bribe …

	… in the last 12 months	… in the last 5 years
Hong Kong	56%	60%
Singapore	52%	64%
Netherlands	24%	40%
Germany	24%	36%
United States	18%	32%
Britain	16%	26%

The sector worst affected was public works/construction: about 40 per cent of companies believed that they had lost business to bribe-paying competitors in the last year, and about 55 per cent in the last five years.

General awareness of the OECD Anti-Bribery Convention is low,[4] though new legislation introduced as a result of the convention is beginning to have an impact on business thinking. The survey suggested that 68 per cent of companies in Britain were familiar with their country's new anti-corruption laws, and more than half had reviewed business practices as a result. In response to a separate question, 84 per cent of British companies said that they banned facilitation payments ('speed money'), compared with only 60 per cent in the 1999 survey: the new British law makes no distinction between these payments and other forms of bribery. By contrast, German companies appeared more cynical: 52 per cent of respondents were aware of new national legislation, but only 24 per cent had reviewed their business practices.

If outright bribery is forbidden, companies will look for other means of exercising influence. Some of these approaches are legitimate, others more controversial. One of the most sensitive issues is the use of middlemen, such as agents, consultants and joint venture partners. The survey points to a widespread belief that both US companies and their counterparts from other OECD countries 'occasionally' or 'regularly' use such middlemen to get round anti-corruption laws.

Similarly, there was a general perception that both US and other OECD-based companies gain business advantage as a result of political pressure from their governments, either 'regularly' or 'occasionally' (see Table 20.2). This issue may become more controversial in future. Embassies play a valuable role in helping companies identify openings in new markets, and political pressure from the home government can help companies resist demands for bribery. Nevertheless, pressure that is seen as inappropriate may create problems. If a company or project is thought to be 'imposed' on the host country, it may eventually face a backlash.

Table 20.2: How often do international companies benefit from political pressure from their home governments to gain business advantage?

	Never (%)	Occasionally (%)	Regularly (%)	Nearly always (%)	Don't know (%)
US companies	7.6	48.4	25.2	6.0	12.4
Companies from other OECD countries	9.2	54.8	25.6	2.0	8.4

Respondents' views of the future were mixed. Overall, nearly half believed that current corruption levels would remain the same. The Dutch were the most optimistic, with 42 per cent believing that corruption levels would decrease. Hong Kong correspondents were the most pessimistic with 48 per cent believing that current levels would remain the same, and 42 per cent expecting an increase.

The scale of the challenge of beating corruption was aptly summarised by an American respondent: 'On the surface we seem to be beating it [corruption], but underneath it's like Internet security. People make it better, then other people find ways to sneak through.'

Notes

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2. A summary of the findings is available on www.crg.com. The results are discussed in greater detail, together with a presentation of business strategies to counter corruption, in Control Risks' report, *Facing Up to Corruption* (London: Control Risks, 2002).
3. See Transparency International, *Global Corruption Report 2001*, pp. 279–81.
4. The findings were similar in Transparency International's 2002 Bribe Payers Index. See Transparency International, *Global Corruption Report 2003*, pp. 266–8.

21 Assessing governance in diverse and complex contexts: evidence from India

Julius Court[1]

Is it possible to assess governance at the national level in countries with diverse economic, social and political contexts? India provides an important and interesting case to investigate this question. Groups of governance experts from four states – Andhra Pradesh, Bihar, Delhi and Kerala – were surveyed to assess the extent to which they had different views on governance at the national level. The findings suggest that even in a country with the diversity and complexity of India it is feasible and valuable to carry out national governance assessments.

The India study was part of the World Governance Survey (WGS) project, a comprehensive assessment of governance in 16 developing and transition countries representing 51 per cent of the world's population. Using a cohesive framework and questionnaire, the WGS generated responses from a panel of governance experts in each country. The general findings were reported in the *Global Corruption Report 2003*.[2] The panels in the WGS countries were mostly from capital cities – in India, for example, Delhi was surveyed.

Given the size, complexity and diversity of India, however, surveys were also carried out in three other regions to compare the results to the Delhi-based survey. These surveys were undertaken from May to July 2001 in partnership with local researchers. The assessments were conducted in four very different Indian states:

- Andhra Pradesh, with its dynamic state government and innovative information technology-based development strategy
- Bihar, with its violence, criminality and the lowest literacy rate and per capita income in India, often seen as the worst-governed of India's states
- Delhi, the political heart of the country; with high-growth industry and significant foreign investment
- Kerala, with the highest literacy rate in the country, a reform-oriented state apparatus and an active and highly politicised public.

In each state, a local coordinator constituted a diverse panel of around 40 governance experts to complete the assessment. Respondents completed a questionnaire of 30 questions – with five questions in each of six arenas of governance. The experts rated each indicator on a scale from 1 to 5; the higher the score the better. Many also provided

extensive comments to support their rating. Table 21.1 reports on how the expert panels in different parts of India assess governance at the national level, with an aggregate score for each of the six arenas.

Table 21.1: Comparing perceptions of governance across India

Region	Civil society	Political society	Government	Bureaucracy	Economic society	Judiciary	Total
Andhra Pradesh	3.18	2.96	3.0	3.1	2.95	2.96	3.03
Bihar	3.30	3.1	2.8	3.16	2.97	3.05	3.07
Delhi	3.31	3.16	3.3	3.37	3.18	3.07	3.25
Kerala	3.34	3.06	3.11	3.21	2.87	2.95	3.12
Average	**3.28**	**3.07**	**3.05**	**3.21**	**2.99**	**3.01**	**3.11**
Difference high–low	**0.16**	**0.20**	**0.50**	**0.27**	**0.31**	**0.12**	**0.22**

Three general observations deserve mention. The first is that experts in all four states give roughly similar ratings at the aggregate levels. The average rating for the country was 'moderate' for all regions, with a range from 3.03 in Andhra Pradesh to 3.25 in Delhi. It does seem surprising that the variation is not more pronounced given the vastly different nature of the regions where the survey was undertaken. This seems to indicate that experts are looking beyond local circumstances to give roughly similar governance ratings at the national level.

Second, the ratings are relatively similar for many of the arenas – particularly civil society, political society and the judiciary. But the ratings for the government arena differ the most markedly. This difference is generated by a very high rating for Delhi – likely due to high self-evaluations by bureaucrats and government officials there – contrasting with a very low rating of the government by respondents in Bihar.

A third important finding is that respondents from Delhi consistently give higher ratings for the quality of national governance than the experts in other states. While the difference is not substantial, it would be prudent to draw on national panels rather than just to focus on experts in the capital city.

Next, it is worthwhile looking at the findings for specific questions. Figure 21.1 shows the average rating for all 30 questions by respondents in the four states. The key finding is that the difference in ratings between specific questions is sometimes greater than the difference between the four states. For example, within the civil society dimension experts in all four regions agree that freedom of expression (question 1) is 'high' (score of 4.00) in India, whereas they also agree that there is 'moderate' (score of 3.00) discrimination in politics (question 3). In contrast, the average score for the civil society dimension varies little, from a low of 2.96 in Andhra Pradesh to a high of 3.16 in Delhi. The pattern seems to indicate that experts are looking beyond local circumstances. Given the expected disparity in conditions, this is an important finding in terms of methodology.

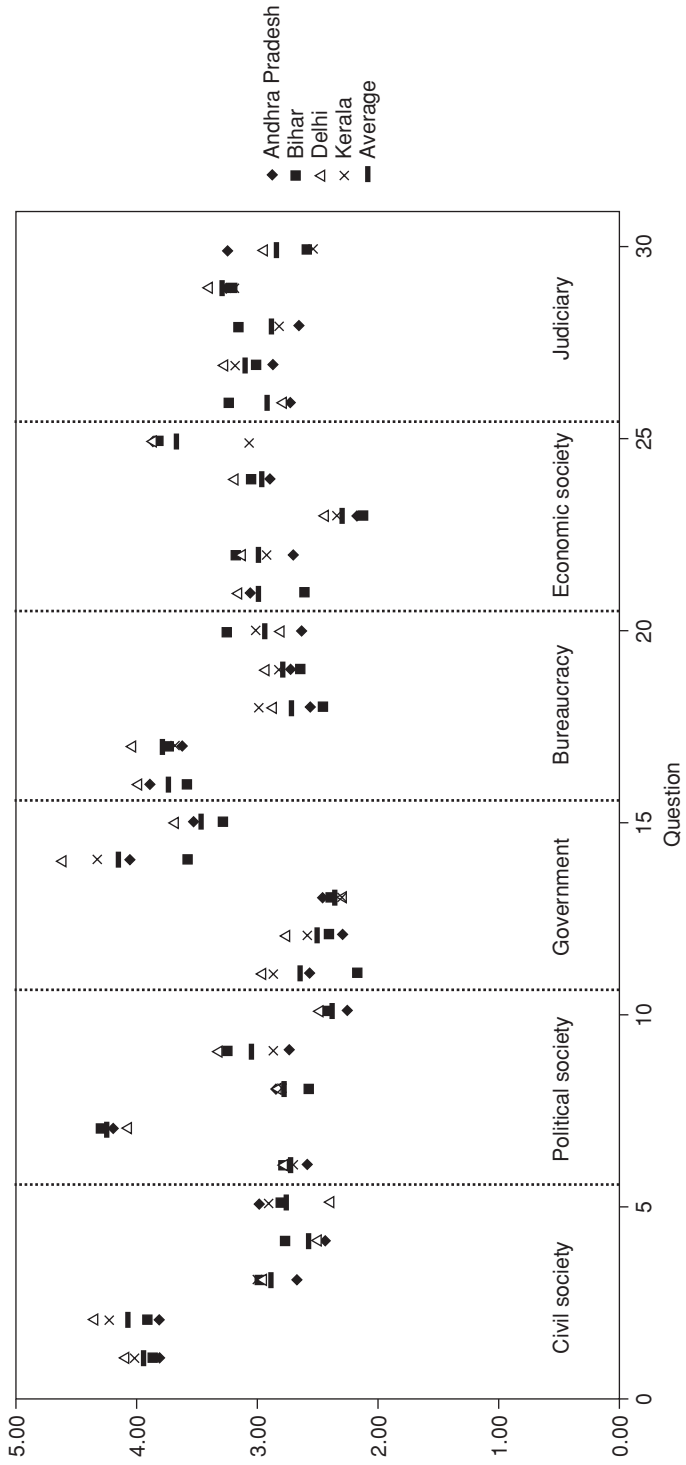

Figure 21.1 Comparing governance perceptions across India: ratings for each question

The perceptions of experts in Delhi and Bihar differ markedly with regard to the government arena, particularly regarding question 14 (the subordination of the military to civilian government). This difference is almost certainly explained by the violence that characterises politics and society in Bihar.

A key conclusion is that great diversity within a country does not present a major problem for assessing governance at the national level. For most issues, experts in very diverse parts of the country gave relatively similar assessments of governance at the national level. There were certainly specific areas where state issues affected the expert's views significantly, but it was surprising that the number of such cases was relatively low.

Although methodological considerations mean findings are indicative rather than conclusive, the survey does highlight some bright spots, including high levels of freedom of expression and association; high levels of political competition; a respected bureaucracy; and a military that accepts its subordination to civilian government.

There was an overarching concern, however, that policy-making is rather divorced from the people – especially the poorest members of society. Democracy in India is more impressive in form than substance. More specifically, the survey found that corruption was the most important governance challenge in the country. As one respondent dejectedly put it: 'Right from birth to death, nothing happens without bribery and corruption. People can neither live nor die with dignity.'

The full paper and additional information can be found on the project website: www.unu.edu/p&g/wga

Notes

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2. The pilot phase of the WGS was carried out in early 2001 with support from the United Nations University and United Nations Development Programme. A larger round of country assessments is planned for early 2004.

22 How elites view corruption and trust in post-Soviet states

Anton Steen[1]

Post-communist countries are still in a process of transformation. Apathy is widespread in the population and there are few signs of strong civic culture. Perhaps the most serious impediment to viable economic reform is corruption at the elite level and the lack of transparency. The post-communist legacy of closed networks has laid the basis for fragile institutions and politics dominated by elites. As a result, the strength of political and administrative institutions depends on the commitment of the elites to take corruption seriously, as well as their confidence in public officials and state institutions.

The Department of Political Science at the University of Oslo began to survey Baltic elites in the early 1990s and later included Russian elites, with a focus on attitudes towards democratisation and marketisation. Comprising top leaders and the political bases of governments, these elites are likely to be well informed about political and administrative practices and able to influence policy decisions directly or indirectly.

The data presented here sheds light on the orientations of elites in Estonia (281 respondents), Latvia (285), Lithuania (315) and Russia (605) in the year 2000. Trained experts from national polling companies conducted face-to-face interviews using structured questionnaires. For each country, the elite sample consists of parliamentary deputies (proportionally drawn according to party strength) as well as top leaders from the ministries, state enterprises, private business, the judiciary, local government and cultural institutions (mass media, education and art). In this article, these institutionally defined elites have been merged into one group.

Table 22.1 shows that an overwhelming majority among the elite in all four countries thinks it is important to solve corruption problems. Nevertheless, there are nuances: while about 60 per cent of all Russian, Latvian and Lithuanian elites consider corruption a particularly important problem, Estonian leaders are somewhat less concerned, with about 50 per cent of respondents being very worried.

Table 22.2 shows that elites do not generally trust public officials. Respondents view many public officials as primarily interested in benefiting from their positions in the state machinery – between 39 and 61 per cent of the elites agree that public officials are more concerned with personal gain than the good of the people. However, there are marked differences between countries. Estonia's elite has the most positive impression of public officials, their Russian counterparts are most negative, and Latvia and Lithuania rank between the two.

Table 22.1: Solving the corruption problem

	Percentage of respondents who believe that solving corruption is…				
	… very important	… somewhat important	… not very important	… unimportant	Don't know/no answer
Estonia	51	38	11	0	0
Latvia	72	25	3	0	0
Lithuania	61	35	2	0	0
Russia	69	23	8	0	0

Table 22.2: The pursuit of self-interest by public officials[a]

	Fully agree (%)	Somewhat agree (%)	Somewhat disagree (%)	Fully disagree (%)	Don't know/ no answer (%)
Estonia	4	35	56	4	2
Latvia	11	44	40	2	3
Lithuania	14	37	44	2	2
Russia	21	40	31	4	4

[a] Respondents were asked whether they agreed with the statement that public officials in their country pursue their self-interest more than the good of the people.

Many population surveys show that people's confidence in political and administrative institutions is very low in post-communist countries. The outlook of the elites reflects a level of confidence that is considerably higher than the population average. Table 22.3 considers an institution that is particularly important for political performance, namely the ministries, and shows how the elite's confidence compares with its perception of people's confidence in the leaders of these institutions. Put differently, the table shows how the elite assesses mass public opinion.

Table 22.3: Elite confidence in ministries and elite images of people's trust in leaders of ministries[a]

	A great deal of trust (%)		Quite a lot of trust (%)		Not very much trust (%)		No trust at all (%)		Don't know/ no answer	
	Elite	People	Elite	People	Elite	People	Elite	People	Elite	People
Estonia	7	1	63	43	26	50	4	4	0	3
Latvia	2	0	53	22	38	73	7	4	1	1
Lithuania	0	0	41	18	45	69	11	10	3	4
Russia	0	1	31	38	52	48	14	7	3	6

[a] The 'elite' columns indicate the attitude of elites towards ministries in their own country. The 'people' columns indicate what the same elites believe the attitudes are of most people in their country towards the leaders of ministries.

The results demonstrate that very few members of elites have considerable trust in the ministries. In Estonia, 70 per cent of the elite have either 'quite a lot' or 'a great deal' of confidence in the ministries, whereas 55 per cent do so in Latvia, 41 per cent in Lithuania and only 31 per cent in Russia. The Estonian elite also makes the most positive evaluation of people's trust in the ministries. While the Russian elite's trust in ministries is very low, they have a more positive impression of people's attitudes towards ministry leaders. The Latvian and Lithuanian elites are significantly more pessimistic about the public's trust in ministries.

The findings clearly demonstrate that post-communist elites see corruption as a serious problem that requires attention. The data suggest that Estonia may have a less serious corruption problem than Latvia, Lithuania or Russia. These results dovetail with those of various studies on Estonia's leading position among post-communist countries in overcoming the legacies of communist practices. A new, younger generation of politicians and administrators is supporting this positive development, which seems to correlate with an elite culture distinguished by relatively high confidence in institutions and other leaders. The responses of elites in all four countries also conform well to the ranking of TI's Corruption Perceptions Index.

Note

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23 The power of information: evidence from public expenditure tracking surveys

Ritva Reinikka and Jakob Svensson[1]

A well-known survey of primary schools in Uganda revealed that only 13 per cent of student capitation grants made it to schools in 1991–95, and comparable surveys in other countries recently made similar findings. When the Ugandan government launched an information campaign targeting the schools, the level of leakage fell significantly. New research measured the power of information by gauging the extent to which leakage fell when transparency was increased.

For every dollar spent by the central government on non-wage education items in 1995, only 20 cents actually reached schools, with local governments capturing most of the rest.[2] Poor students suffered disproportionately because schools catering to them received even less than others. Disbursements were rarely audited or monitored, and most schools and parents had little or no information about their entitlements to the grants. To respond to the problem, the central government began publishing data on monthly transfers of capitation grants to districts in newspapers, and to broadcast them on the radio. It required primary schools and district administrations to post notices of all inflows of funds. This promoted accountability by giving schools and parents access to the information needed to understand and monitor the grant programme.

An evaluation of the information campaign reveals a large improvement. Not all schools are receiving the entire grant and there are delays. But capture by interests along the way was reduced from 80 per cent in 1995 to 20 per cent in 2001 (Figure 23.1).

A before-and-after assessment comparing outcomes for the same schools in 1995 and 2001 – and taking into account school-specific factors, household income, teachers' education, school size and supervision – suggests that the information campaign explains most of the massive improvement. However, the results of the assessment should be interpreted with care.

To identify a causal effect we should be able to control for all time-varying factors – including policy changes – that have occurred since 1995 and that may have influenced the relationship between schools and district officials. During this period Uganda's education sector saw a number of other reforms, such as improved monitoring and supervision by the central government, increased capitation grants and a reduction of school fees. It is possible that these policy measures, or some other time-varying factor, influenced the degree of capture of funds.

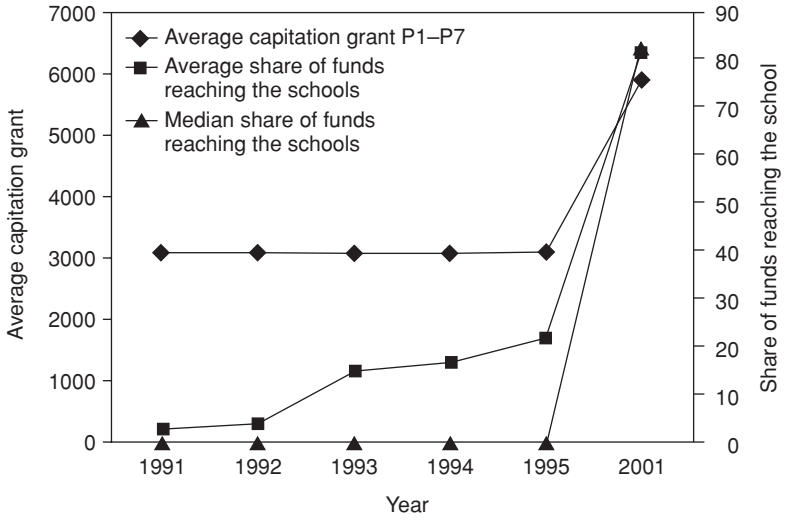

Figure 23.1: Schools received what they were due after an information campaign[a]

[a] Amount of capitation grant (Uganda shillings) that schools were supposed to receive, and average (mean and median) percentage actually received by schools, 1991–2001.

Sources: R. Reinikka and J. Svensson, 'Explaining Leakage of Public Funds', Centre for Economic Policy Research (CEPR) Discussion Paper 3227 (London, 2002); and R. Reinikka and J. Svensson, 'The Power of Information: Evidence from a Campaign to Reduce Capture' (Washington, D.C.: World Bank, 2003).

A way around the problem of identifying causality is to explore differences between schools in access to newspapers – as noted earlier, a key component in the information campaign was publicising transfers of public funds in newspapers. In 1995 the schools that received newspapers had suffered just as much from leakage as schools that did not. And from 1995 to 2001, both groups experienced a large drop in leakage. But the reduction in leakage was significantly higher for schools with access to newspapers, which increased their funding by 14 percentage points more than schools that lacked newspapers.

To assess the impact of the information campaign, however, it is not enough to simply compare schools with and without newspapers, since there may be a spillover effect from schools that are informed about their entitlement to those that are not. If a district official responsible for sending funds to schools cannot distinguish between informed and uninformed schools, or if teachers learn about a school's entitlement from their peers in other schools, then a simple comparison of schools with and without newspapers will severely underestimate the impact. Taking these spillover effects into account, we find that the information campaign can explain nearly 75 per cent of the reduction in capture of funds since the mid-1990s.

Policy-makers in developing countries seldom have information on actual public spending at the level of front-line provider. A public expenditure tracking survey – like

the one carried out in Uganda and subsequently in several other countries (findings on leakage summarised in Table 23.1) – tracks the flow of resources through various layers of government, on a sample survey basis, in order to determine how much of the originally allocated resources reach each level. The survey also collects other data to help explain variation in leakage across service providers.[3]

Leakage of non-wage funds is a major issue in all cases. According to the public expenditure tracking survey in Zambia – unlike in Uganda in the mid-1990s – rule-based allocations seemed to reach the intended beneficiaries: more than 90 per cent of all schools received their rule-based non-wage allocations. But rule-based funding accounted for only 30 per cent of all funding. In discretionary allocations (70 per cent of total spending) the positive results no longer held: less than 20 per cent of schools received *any* funding from discretionary sources.

Table 23.1: Leakage of non-wage funds in primary education: evidence from public expenditure tracking surveys (%)

Country	Mean
Ghana 2000	50
Peru 2002[a]	30
Tanzania 1999	57
Zambia 2002	60

[a] Utilities only.

Sources:
Ghana: X. Ye and S. Canagarajah, 'Efficiency of Public Expenditure Distribution and Beyond: A Report on Ghana's 2000 Public Expenditure Tracking Survey in the Sectors of Primary Health and Education', World Bank Africa Region Working Paper Series No. 31 (Washington, D.C., 2002).
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Zambia: J. Das, S. Dercon, J. Habyarimana and P. Krishnan, 'Rules vs. Discretion: Public and Private Funding in Zambian Basic Education. Part I: Funding Equity' (Washington, D.C.: World Bank Development Research Group, 2002).

The extent of corruption and leakage seems to have less to do with conventional audit and supervision mechanisms, and more with the opportunity that schools – or clinics in the health sector – have to voice their claims for funds. Traditionally, it is left to government and a country's legal institutions to devise and enforce public accountability. The Uganda experience questions this one-sided approach. With an inexpensive policy action – the provision of mass information – Uganda dramatically reduced the capture of public funds. Because poor people were less able than others to claim their entitlement from district officials before the campaign, they benefited most from it.

Collusion, inefficiencies, abuse and lack of responsiveness to citizens' needs cannot easily be detected and rectified even with the best of supervision. When institutions are weak, the government's potential role as auditor and supervisor is even more

constrained. Measures to empower beneficiaries by increasing information are an important complement.

Notes

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2. Case study evidence and other data showed that the school funds were not going to other sectors either. A. Jeppson, 'Financial Priorities Under Decentralisation in Uganda', in *Health Policy and Planning*, vol. 16, no. 2, 2001.
3. For the survey instruments and other methodological issues visit www.publicspending.org

24 Budget transparency: assessments by civil society in Africa

Joel Friedman[1]

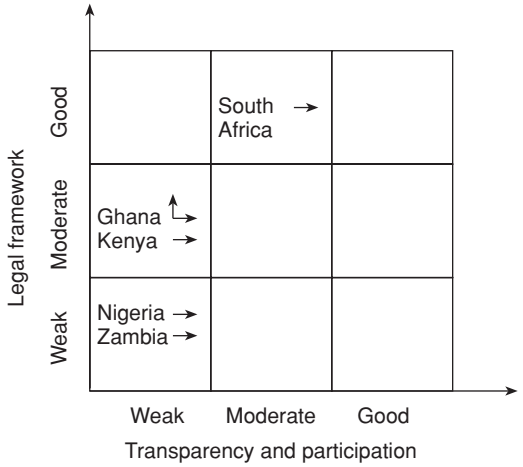
The lack of public access to reliable and timely information about government budgets greatly contributes to governance problems. Secret accounts, off-budget activities and the lack of public scrutiny all lend themselves to corrupt practices. An increasing number of NGOs recognise the need to draw attention to budget transparency. Recent research has focused on the availability of specific budget information, assessing its timeliness, accuracy and usefulness. It also emphasises the importance of scrutiny at all stages of the budget process, from opportunities for civil society to comment on budgetary priorities to the careful auditing of revenue and expenditure after a fiscal year has ended.

An early NGO effort to research budget transparency was carried out in 1999 by the Institute for Democracy in South Africa (Idasa), in cooperation with the Washington-based International Budget Project (IBP). Following its initial study of budget transparency in South Africa, Idasa's African Budget Project joined with four other NGOs in Africa to expand the research to cover Ghana, Kenya, Nigeria and Zambia. The participating organisations included Isodec in Ghana, Transparency International in Kenya, Integrity in Nigeria and, in Zambia, Women for Change, the Catholic Commission for Justice and Peace and a consultant from the University of Zambia.

The researchers for this multi-country project, initiated in 2000, relied on a case-study method to explore the legal underpinnings of each country's budget process and budget information requirements, as well as the practices that each country actually followed. In each country, the researchers conducted extensive interviews with officials in the executive and legislative branches, civil society groups and the media. Interviews were supplemented by a review of budget documentation, audit reports, policy papers and legislation. A peer review group was established in each country to check the results. The group published its study, *Budget Transparency and Participation: Five African Case Studies*, in June 2002.

The study finds that aspects of transparency and participation in the budget process are weak in each country, though there are important differences (see Figure 24.1). In South Africa, the researchers consider the legal framework 'good', due to the comprehensive overhaul of the budget process undertaken since 1994. The legal frameworks in Kenya and Ghana are also viewed positively, but their effectiveness is weakened by a number of factors. Kenya's framework is outdated and in conflict with government attempts to improve budget management while Ghana's is compromised by official

secrets legislation. In Zambia and Nigeria, the legal frameworks are judged to be 'weak'. The budget laws in Zambia allow for almost limitless expenditure with approval after the fact and require little information to be published. In Nigeria, they can be contradictory and ambiguous, confusing responsibility for budget management.



Arrows indicate direction of trends in performance

Figure 24.1: The budget process in five African countries

Although recent reforms have substantially improved the public availability of information in South Africa, the study finds that there are still only 'moderate' opportunities for participation. In the other countries, transparency and participation are rated as 'weak', albeit improving. The study recommends that civil society in all five countries should have greater access to information and more opportunities to participate in the budget process.

There are plans to update and expand the study, with five new countries being added: Botswana, Burkina Faso, Cameroon, Namibia and Uganda. In addition, a related research project (reported in the *Global Corruption Report 2003*, pages 274–7) has been undertaken in five Latin American countries – Argentina, Brazil, Chile, Mexico and Peru – and five new countries are being added to this study too: Colombia, Costa Rica, El Salvador, Ecuador and Nicaragua.

More generally, the IBP has been working with NGOs to develop a set of core questions that can be incorporated into any budget transparency research effort. NGOs in three dozen countries across Africa, Asia, Latin America, Eastern and Central Europe, and Central Asia are expected to be engaged in budget transparency research by the end of 2004.

For further information see www.internationalbudget.org

Note

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25 Transparency, wages and the separation of powers: an experimental analysis of the causes of corruption

Omar Azfar and William Robert Nelson Jr[1]

Assessing the causes of corruption is difficult with real world data, given problems of inference.[2] In an experiment we can overcome these problems through controlling the environment in which people act. The use of experiments in economics is a growing field. In the past economists were largely sceptical of the approach, but experimental economists have recently shown that their results hold both in different societies and when the stakes are raised. Indeed the 2002 Nobel Prize in economics was awarded to Daniel Kahneman and Vernon Smith for their pioneering experimental investigations.

The game

The experiment involved a game with eight players who, at different times, played the role of voters, the executive and the attorney general. The incentives that players faced were designed to mimic those in the real world. Participants played for real stakes: at the end of a session, each player was allowed to take home his winnings from one randomly selected round of the 12 rounds played. The average take-home winnings were approximately US $25 per player for a two-hour session. The six-round game was played 24 times in total, generating 144 observations, with the experimental design changing between games. The set of players was changed 12 times.

The basic idea of the game is as follows:

- An executive is determined by a popular vote of the players.
- The attorney general is either appointed by the executive, or selected in a separate, simultaneous election.
- Both the executive and the attorney general unconditionally receive a wage in each round of the game (the executive received US $30 in low-wage rounds and US $60 in high-wage rounds).
- The executive rolls a six-sided dice to see how many valuable tiles he receives. The valuable tiles represent public funds and each is worth US $30 if distributed to voters and US $15 if corruptly kept by the executive.
- The valuable tiles are mixed with the appropriate number of blank tiles to reach a total of 10, 14 or 22 tiles. Only the executive knows how many of the tiles are valuable.

- The executive distributes six tiles to the voters. It is up to him how many of the valuable tiles he corruptly keeps for himself.
- The attorney general may then attempt to expose corruption by turning over up to four of the tiles kept by the executive. The executive keeps any valuable tiles that he successfully hides, while nobody gains from those that are exposed. To mimic the effort involved in being vigilant, the more tiles the attorney general turns over, the more he must pay from his own wage. The attorney general's efforts may be rewarded through re-election or through election to the executive.
- The executive (and, in some games, the attorney general too) stands for re-election, and another round is played. The game involves six successive rounds.

We decomposed accountability into one factor that influenced the cost of being caught, wages while in office, and two factors that determined the probability of being caught, transparency and the separation of powers. Hence, three variables were used to test the effects on corruption of these components of accountability:

- Half the games were played with high wages and half with low wages.
- The total number of tiles distributed to the executive varied: the larger the total number, the more difficult it was for the attorney general to expose corruption. One-third of the games were played with 10 tiles in total (high transparency), one-third with 14 (medium transparency) and one-third with 22 (low transparency).
- In half the games the attorney general was elected (separation of powers); in half he was appointed by the executive (no separation of powers).

Results and discussion

Our salient findings, all of which are statistically significant, are:

1. Voters are unlikely to re-elect executives found to be corrupt.
2. Increasing the executive's wages reduces corruption (see Figure 25.1 – executives with high wages tend to keep fewer valuable tiles).
3. Increasing transparency reduces corruption (see Figure 25.1 – the smaller the total number of tiles, the fewer valuable tiles the executives tend to keep).
4. Directly elected attorney generals work more vigilantly at exposing corruption than do appointed attorney generals (see Figure 25.2 – elected attorney generals are more likely to turn over a large number of tiles).

Each of the findings has important real-world parallels and implications. There is a continuing debate about the importance of high wages in reducing corruption. Some anecdotal accounts suggest an effect. For instance, a devaluation that dramatically lowered the real wages of government officials in Cameroon was reportedly followed by a sharp increase in corruption. Our findings (result 2) confirm this anecdotal evidence in an experimental setting: higher wages reduced corruption.

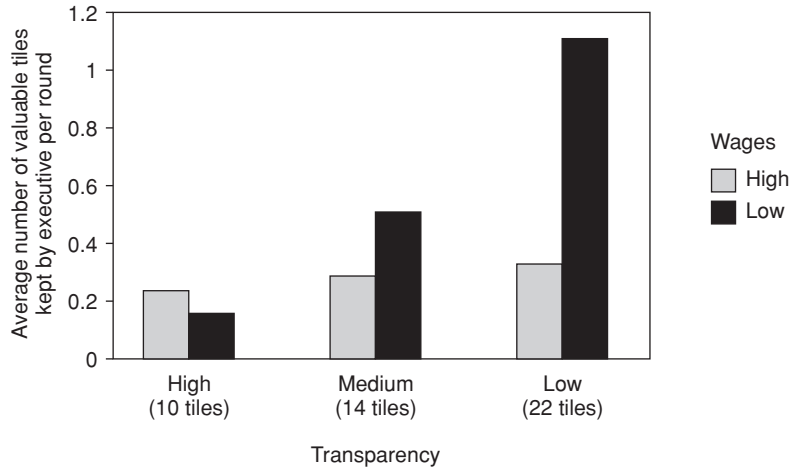

Figure 25.1: Executive corruption[a]

[a] The average number of valuable tiles per round was 3.6, of which the executive on average chose to keep 0.46.

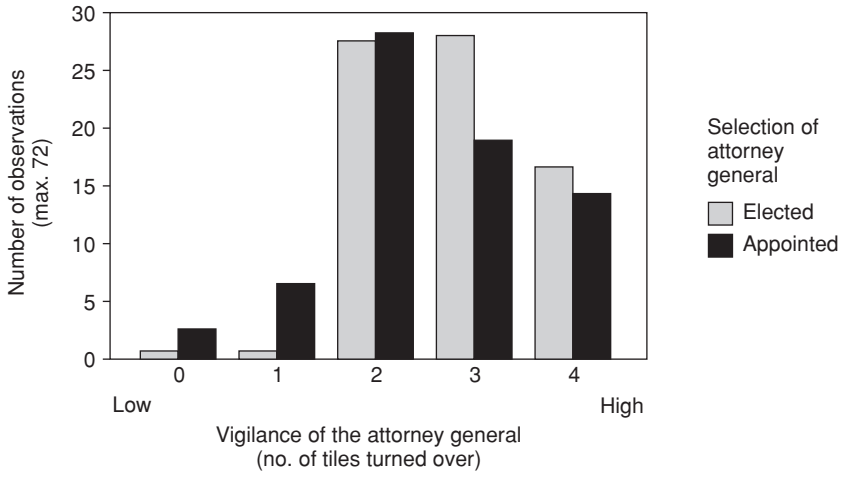

Figure 25.2: Attorney general's vigilance[a]

[a] The average number of tiles turned over per round by the attorney general was 2.6.

Increasing transparency is thought by many to be the most effective means of reducing corruption. Many of the successful anti-corruption policies that were adopted in Hong Kong, Singapore, the Philippines and La Paz (Bolivia) can be thought of as increasing the probability of exposure. Our findings (result 3) provide additional evidence that transparency reduces corruption.

In almost all countries the attorney general is appointed by the executive and has weak incentives to investigate the executive branch of government. It is very difficult, using real world data, to evaluate the impact on corruption of direct elections for attorney general, given the lack of examples. Within the United States, of the 50 attorney generals at state-level, 44 are directly elected and six appointed. But the small number appointed and the poor quality of corruption data for US states make conventional analysis difficult. However, it is possible to examine this issue with experimental data. Our findings (result 4) indicate that elected attorney generals are more vigilant than appointed attorney generals.

Experimental data does suffer from a lack of environmental validity. Situations created in the laboratory imperfectly mimic real world situations and the stakes are usually much lower. In future, we hope to conduct corruption experiments in developing countries where the greater prevalence of corruption, and our ability to provide stakes equal to several days' wages, will improve the credibility of our results. We invite potential collaborators to contact us.

For further details see the full article, available at www.experimentaleconomics.com and www.iris.umd.edu

Notes

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2. The problems of inference include overlapping definitions, reverse causality, co-linearity and omitted variable bias.

26 Gender and corruption in the public sector

Ranjana Mukherjee and Omer Gokcekus[1]

If women are less corrupt than men, as is commonly believed, increasing women's representation in public employment should reduce corruption in public organisations. Very little is known, however, about possible connections between corruption and women's participation in government. Two previous studies have explored whether corruption is connected with women's share in a country's labour force and women's representation in parliament.[2] Our focus was public sector organisations; this study examined whether corruption in public sector organisations is linked to the percentage of women employed in them.

The investigation relied on survey responses from nearly 4,000 public officials in 90 public sector organisations in six countries: Argentina, Bolivia, Bulgaria, Guyana, Indonesia and Moldova. Officials employed by public organisations were asked about their institutional environment, including the severity of corruption and the probability of it being reported.[3] We used survey responses to calculate corruption indicators for each public organisation. We then checked the organisation's corruption level against the percentage of women it employs.

Recognising that responding officials were reporting perceptions on a sensitive issue, we checked the reliability of officials' self-reported perceptions with TI's 2001 Corruption Perceptions Index (CPI), which is not based on self-reporting. As Table 26.1 shows, we found that public officials' perceptions correlated well with the CPI. We also checked for other biases, such as women systematically under- or overestimating corruption: as Table 26.1 indicates, we found that the perception of female public officials was very similar to that of male officials.

Table 26.1: Perceptions of corruption in public organisations

	Argentina	Bolivia	Bulgaria	Guyana	Indonesia	Moldova	Average
Percentage of women in the institutions surveyed	42	29	68	60	26	44	47
Perceptions of corruption							
TI CPI	3.5	2.0	3.9	–	1.9	3.1	–
Percentage of *all officials* who reported that corruption is a significant problem	62	88	50	32	93	73	67
Percentage of *female officials* who reported that corruption is a significant problem	61	87	53	34	93	76	62

We found that a statistically significant relation exists between gender and corruption in public sector organisations. The level of corruption declines initially as the percentage of women in an organisation increases, but only if women continue to be in the minority. After a certain threshold, increasing the proportion of women actually reverses the trend of reduced corruption: corruption increases as women become more of a majority in an organisation, as is summarised in Figure 26.1. In other words, having too few or too many women is associated with an increase in the severity of corruption. Rather, a balance between women and men appears to minimise corruption in an organisation.

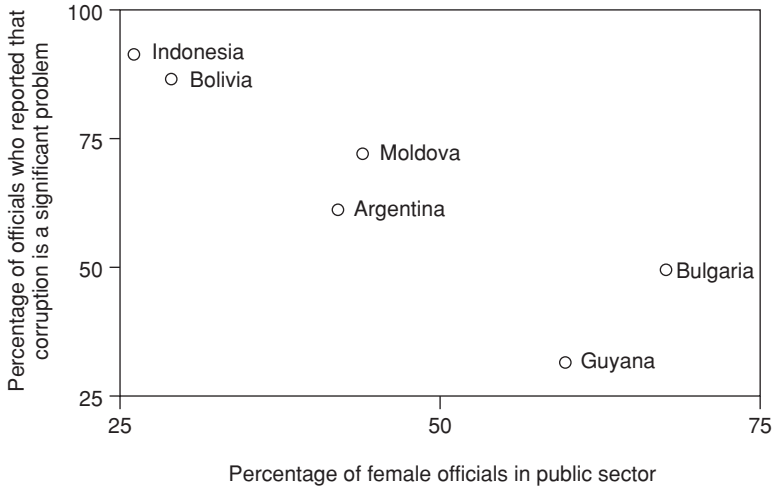

Figure 26.1: Association of corruption severity with percentage of women employed in public sector (r = 0.9)

Figure 26.2 shows that, in four of the six sampled public sectors (Argentina, Bulgaria, Guyana and Indonesia), organisations with lower-than-average numbers of women had higher corruption levels than organisations with a higher-than-average proportion of women. The reverse was found to be true in Bolivia and Moldova. However, when all 90 public sector organisations – from all six countries – were pooled, we found that organisations with lower representation of women had more corruption than organisations with higher representation of women.

These findings suggest that countries with a low proportion of women in the workforce (Argentina, Guyana, Bolivia and Indonesia among the six countries that we studied) may benefit from increasing the proportion of women in public organisations. But, in countries that already have a fairly large percentage of women in public employment (Bulgaria and Moldova in our study), recruiting more women might increase corruption in public organisations.

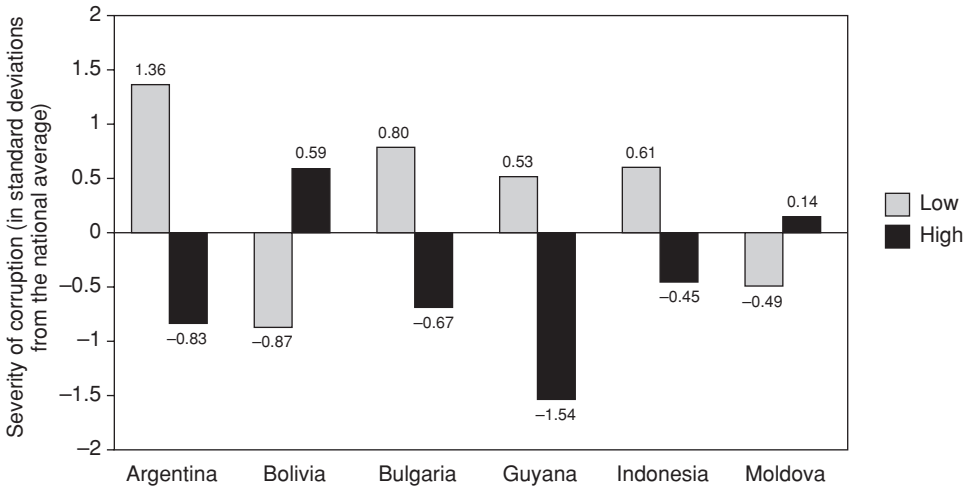

Figure 26.2: Severity of corruption in public organisations with higher or lower than average number of female officials

A possible explanation for this conclusion is that corruption levels may have more to do with group dynamics than with gender. We also recognise that the direction of causality might in fact be the reverse of what is often hypothesised: corruption might actually be the cause of an imbalance in the representation of men and women in the public sector.

For more information about the survey see www1.worldbank.org/publicsector/PREMweek/genderorruption.doc

Notes

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2. D. Dollar, R. Fisman and R. Gatti, 'Are Women Really the "Fairer" Sex? Corruption and Women in Government', *Journal of Economic Behavior and Organization*, vol. 46 (2001); A. Swamy, S. Knack, Y. Lee and O. Azfar, 'Gender and Corruption', *Journal of Development Economics*, vol. 64 (2001).
3. See www1.worldbank.org/publicsector/civilservice/surveys.htm

27 Rent seeking and gender in local government in India

V. Vijayalakshmi[1]

Constitutional provisions in India ensure that one-third of elective positions in local government and a similar proportion of executive seats are reserved for women. In the institutions of rural local government, known as Panchayati Raj Institutions or *panchayats*, nearly 40 per cent of elected representatives and 33 per cent of presidents or chairpersons are women at the district, sub-district and village levels. Although the *panchayats* were conceived to enhance the quality of governance by being more responsive and accountable to citizens, there is in fact a wide gap between expectations and their actual functioning. Rough estimates gleaned from surveys of government representatives, officials and contractors suggest that 55–65 per cent of the funds intended for development are lost to corruption. Are such high levels of corruption and the gender balance in local governance in any way linked?

This study sought to answer that question by asking elected representatives and government officials about their attitudes towards corruption and perceptions of the level of rent seeking in the *panchayats*.[2] It was carried out in Kerala and Karnataka, two states in south India that have significant variations in social and gender development indicators and levels of civil society participation. Information from two districts in each state was used – Kollam and Kozhikoe in Kerala and Mandya and Udupi in Karnataka. Members of two district *panchayats*, eight sub-district *panchayats* and 20 village *panchayats* were interviewed. In total 434 elected representatives (218 in Kerala and 216 in Karnataka), 45 officials, 20 contractors and 350 citizens from both states were surveyed.

Attitudes towards corruption

The elected representatives were asked to respond to a set of statements on corruption and rent-seeking behaviour, indicating the extent to which they thought a particular act was acceptable. The statements included: 'awarding contracts to relatives and friends is acceptable', 'accepting commissions is not corruption', or 'commissions and bribes are acceptable to cover election expenses'. Responses were graded and an aggregate score of opinions was constructed, where a score between 23 and the maximum of 33 indicates the belief that corruption is justified, while a score below 11 indicates the belief that corruption can never be justified.

The mean score was found to be 25.37 for men and 25.49 for women, indicating no significant relation between gender and attitudes towards corruption. Furthermore,

a probit model was designed to ascertain various factors that might influence the attitude of the representatives towards rent seeking – gender was not found to be a significant factor. Instead, factors that were found to affect attitudes towards corruption were the effectiveness of transparency and accountability measures, the risk of getting caught and punished, and the size of election expenses.

There was a difference in the attitude of representatives between Kerala and Karnataka: views from Kerala were less openly supportive of corruption. This finding may be linked to the higher levels of civil society participation in Kerala, which, while not necessarily reducing the prevalence of corruption, could discourage elected representatives from expressing tolerance of corruption.

Perceived levels of corruption

Officials and elected representatives were also asked to respond to 12 questions about the level of corruption in the *panchayats* and rank them against a scale of 'high', 'medium' and 'low'. These included questions on the frequency of rent seeking, the prevalence of political corruption, the degree of bureaucratic corruption, the role of middlemen, the extent of commissions, and nepotism. An aggregate score was constructed indicating the perceived level of corruption in the *panchayats*.

Both men and women perceived a high level of corruption. While there was a variation in the corruption-level scores between Kerala and Karnataka, gender was not a significant factor. In both Kerala and Karnataka the number of corruption cases filed was low, and there were hardly any cases where action was taken against rent seekers.

Of particular interest from the perspective of gender and corruption were the *panchayats* that had a woman as president or female representatives who were elected for a first term. The level of perceived corruption in the *panchayats* with a female president was not significantly different. While nearly 96 per cent of women were elected to the *panchayats* for the first time, being new to politics and inexperienced did not reduce rent seeking. This finding suggests that profiteering practices may be speedily learned.

Conclusion

The findings indicate that having women in elected positions does not reduce the level of corruption, even when the findings were controlled for *panchayats* where women were presidents or chairpersons. The evidence suggests that women too exhibit profiteering tendencies when acting as officials or elected representatives.

Notes

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2. For a more detailed discussion, see V. Vijayalakshmi, 'Rent Seeking and Gender in Local Governance', paper presented at the Conference on Re/constructing Corruption, University of East Anglia, Britain, April 2003; and 'Corruption and Local Governance: Evidence from Karnataka', paper presented at the seminar on Lok Ayukta and Governance, at ISEC, Bangalore, India, 28 June 2003. This study is a part of a research programme on decentralised governance and civil society, carried out at the Institute for Social and Economic Change, Bangalore, India, and financially supported by the Ford Foundation.

28 Poverty and corruption in Peru

Javier Herrera and François Roubaud[1]

Household surveys are the best way to gauge the population's view of corruption. During the last quarter of 2002, a module on governance, corruption and citizen participation was introduced into a survey on living conditions of Peruvian households (ENAHO), which was carried out by Peru's National Statistics Institute, or INEI.[2]

Three main characteristics distinguish this survey from prior efforts to measure corruption in Peruvian households. First, its sample size and geographic scope are quite superior to those of other surveys on the subject: nearly 20,000 households were surveyed on the basis of a departmentally representative household survey design.[3] Second, matching the module on corruption with other information collected by the ENAHO – such as income, expenses, social programmes, human capital and physical assets, work and economic activity – opens many possibilities for the analysis of corruption. Finally, the fact that the INEI conducted the survey and addressed such questions for the first time ensures that the data is treated as a public good and that a true institutionalisation process may be launched countrywide.

The corruption section of the ENAHO survey differs from other surveys in two additional respects. First, instead of being limited to heads of households, it is representative of the whole population aged 18 years or older. As a result, we can identify who is more vulnerable to corruption by considering gender and youth issues in particular. Second, the survey features a detailed assessment of whether household members have had any contact with public institutions during the last year. Based on this information, estimates of the incidence and cost of corruption can be restricted to individuals who have made use of public institutions. Since poor people have less access to public services, estimates of the incidence of corruption and its costs are usually upward-biased. The study also investigates whether households reported corruption cases in which they were victims, or their reasons for not complaining. Information on income and expenditures gathered for each household were used to investigate whether poorer households were more or less prone to becoming victims of corruption.

In answer to an open question on the issue, households responded that unemployment and poverty were the country's two main problems (74 per cent and 61 per cent, respectively). Corruption was third, with 32 per cent, far ahead of other problem areas, such as government transparency and credibility, the quality of public education, and crime.

As Table 28.1 shows, the percentage of individuals residing in households in which at least one member had been a victim of corruption in 2002 was 5.2 per cent. If the

15 per cent who had no contact with public institutions are excluded, the incidence of corruption reached 6.1 per cent. The amounts paid by households to corrupt civil servants represented 0.4 per cent of their total expenses, and 1.1 per cent with respect to their food expenses. This amount is far from negligible, representing approximately one-third of government transfers to households through anti-poverty social programmes.

Table 28.1 The link between corruption and poverty in Peru[a]

	Incidence of corruption (All individuals)	Incidence of corruption (Individuals in contact with government)	Average cost of corruption (Nuevos soles per capita per year)	Pressure from corruption (Corruption as % of food expenses)
Non-poor	6.8%	7.9%	69	1.3%
Poor	3.9%[b]	4.6%[b]	15[b]	0.7%
Total	5.2%	6.1%	48	1.1%

[a] The table reflects the number of individuals residing in a household in which at least one member has been a victim of corruption.
[b] The difference between poor and non-poor is significant at 1 per cent.

Source: estimate by authors based on ENAHO 2002, IV quarter, INEI, 18,598 households.

As the table also shows, corruption in Peru seems to affect the poor less than the non-poor, contrary to common expectations. More generally, the incidence of corruption increases according to the standard of living. Two factors qualify this finding, however. Firstly, corruption is a root cause for differential access to public services, as it generally discourages individuals who are less equipped to protect their rights – the poor. Secondly, although the absolute average cost of corruption and its relative budgetary pressure (as a percentage of food expenditures) appear to weigh heavier on non-poor households, poor households are not meeting food, health, education and other essential requirements partly because of the direct cost of corruption. For the poor, the marginal utility of one nuevo sol (about US $0.30) paid or extorted as a bribe is thus greater than for the non-poor.

The institutions in charge of fighting corruption, namely the judiciary and the police, were found to be precisely those in which the most corruption cases occurred (accounting for 31 per cent and 15 per cent of cases, respectively). Higher proportions of cases of judicial and police corruption were found to affect the poor. It is thus not surprising that the judiciary and the police were among the five institutions of which Peruvians were most critical in the survey: respectively 65 per cent and 58 per cent had little or no confidence in them.[4] These findings may help explain why nine out of 10 victims of corruption did not denounce the acts to which they fell prey, especially because of a fear of reprisals. For this reason, insufficient government action in response to corruption penalises the poor more than the non-poor.

Not surprisingly, the survey found that more than one-third of the population considered corruption to have worsened between 2001 and 2002, despite the mechanisms put in place to fight it, as opposed to barely 15 per cent who thought otherwise. Significantly, the poor were less optimistic than the non-poor regarding the fight against corruption.

Notes

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2. The module was adapted from surveys 1–2–3 conducted by DIAL, a European public research centre based in Paris and dedicated to applied economic research in developing countries; see www.dial.prd.fr
3. Only about 1,000 households were surveyed for the Latinobarómetro; the Apoyo survey focused on 5,122 households.
4. The other three institutions are political parties, parliament and trade unions.

29 Daily corruption in francophone Africa

Mireille Razafindrakoto and François Roubaud[1]

Drawing on previous experience in Madagascar, representative household surveys incorporating modules on governance and democracy were conducted in seven capitals in the West African Economic and Monetary Union in 2001 and 2002.[2] An eighth survey was carried out in Antananarivo, capital of Madagascar, in 2003. In total, nearly 35,000 adults aged 18 years or over, were questioned. The analysis below only concerns seven, since data is not yet available from Burkina Faso.

A major advantage of the household survey methodology is that it combines subjective opinion poll questions – on issues such as the operation of democracy and the efficiency of government – with objective data on respondents. Some of the objective data reflects social behaviour and practices, including the proportion of respondents who have access to public services; who are members of a party or political association; or who have been victims of corruption or violence during the past year. Further objective data involves socio-economic information, such as gender, age, education, migration, employment, income and consumption.

By their nature, household surveys generate information on petty corruption rather than grand corruption. The surveys provided both subjective data on perceptions of corruption and objective information on individuals' personal experience of corruption during the previous year. The surveys also asked respondents to identify institutions where corrupt behaviour took place, the types of transaction involved, and the sums of money.

The surveys' results indicate that, despite the diversity of countries studied, their rates of corruption are remarkably similar (see Table 29.1). On average, approximately one in 10 adults had personally been the victim of corruption in the previous year. However, the level of petty corruption in Abidjan stands out as significantly higher, with over 16 per cent of adults having been a victim of corruption there.[3]

In all seven surveyed cities, between 20 and 40 per cent of all citizens had no contact with public services. The reasons for this exclusion are complex, and include the administration's lack of resources, household poverty, and lack of time and awareness. Perceptions of inefficiency or corruption may also be a disincentive. When groups who have no contact with public services are excluded, the corruption rate rises significantly (see third row of the table). In Abidjan, nearly one in four such adults was a victim of corruption in 2002 – a proportion that never falls below 11 per cent in any of the seven cities. Controlling for statistical differences, three groups of countries can be distinguished: Côte d'Ivoire exhibits the highest corruption rate; medium levels characterise Benin, Mali and Togo; and corruption rates are lowest in Madagascar, Niger and Senegal.

Table 29.1: Incidence and determinants of petty corruption in francophone Africa

	Niger	Madagascar	Benin	Togo	Mali	Senegal	Côte d'Ivoire
Corruption incidence (% of total adult population)	8.1	8.4	8.7	9.1	10.3	10.9	16.5
No contact with the administration (%)	33.0	23.5	43.1	41.1	37.3	19.0	28.7
Corruption incidence (% of those in contact with the administration)	12.1	11.0	15.3	15.5	16.4	13.4	23.1
Sample size	6,330	3,020	6,330	1,900	4,530	6,590	4,760

The other information collected in the household surveys makes it possible to examine factors that may explain the incidence of corruption. At first glance, gender and educational level seem particularly important in determining an individual's risk of being a victim of corruption – with women and the least educated being much less affected in all countries. However, these groups also have less contact with public services. When we control for whether or not individuals have contact with public services, a high level of education and gender (male) cease being risk factors.

Looking at all seven capital cities together, there were several robust findings with regard to the group profile of those most often the victims of corruption. The wealthiest groups and heads of household are common targets of corrupt officials, doubtless due to their solvency. Other things being equal, youth increases vulnerability. In Abidjan, foreigners are more at risk than others. Contrary to preconceived notions that ethnicity and religion are the driving forces behind discriminatory practices, almost all the survey results show that these variables do not affect the rate of corruption.[4]

Finally, civil servants seem least likely to fall victim to corruption in five of the seven capitals. This observation may support the theory that solidarity operates among civil servants, but two other reasons could explain the finding. Officials may be victims of corruption less often than others because of their knowledge of the workings of government, or professional relations. Alternatively, they may be less inclined than others to inform on corruption, since the border between victim and corrupter is often indistinct.

Notes

1. Mireille Razafindrakoto is an economist at DIAL (Développement et insertion internationale), France. Contact: razafindrakoto@dial.prd.fr. François Roubaud is also an economist at DIAL and director of the research unit CIPRE at the Institut de recherche pour le développement, France. Contact: roubaud@dial.prd.fr
2. Surveys were conducted in Abidjan, Bamako, Cotonou, Dakar, Lomé, Niamey and Ouagadougou.
3. The greater extent of corruption in Abidjan was found to be significant at the 1 per cent level.
4. A few exceptional cases include the Jola in Dakar, who are relatively spared for reasons that need to be explored in detail.